

MEETING OF THE BOARD OF BANK ADVISORS

May 19, 2014, 2014
11:00 am

Department of Financial Institutions
324 South State Street, Suite 201
Salt Lake City Utah

Minutes

BOARD MEMBERS PRESENT:

Roger Shumway, Craig White, and Eric Schmutz. Matt Packard was excused

DEPARTMENT OF FINANCIAL INSTITUTIONS STAFF PRESENT:

Commissioner Ed Leary, Tom Bay, Paul Allred, Mark Peterson, Darryle Rude, Riley Bergstedt and Sonja Long.

OTHERS PRESENT:

Jon Allen, Bank of American Fork; Ray Dardano, Marlin Business Bank; Byron Pollan, CIT Bank; Michael Fosmark, Continental Bank; Lew Goodwin, Green Dot Bank.

1. Call Meeting to Order – Chairman Roger Shumway

2. Minutes –

Roger Shumway asked if there were any changes to the minutes. None were suggested. Eric Schmutz made the motion, Craig White seconded the motion.

3. CSBS/FRB Questions – Tom Bay

Tom explained that this was our annual town hall meeting to discuss the challenges and future of community banking. CSBS has been behind this push along with the Federal Reserve. They will have a conference later this fall to talk about these things. Tom gave out a copy of a CSBS handout on the research conference. Roger started the questions.

- What do you consider the most promising opportunity for your bank this year, whether it is growth from an existing line of business, new product or service, new market presence, or other opportunity?

It is hard to grow business as we have in the past. The risk is the same, but the business has changed. One bank is looking at acquisitions. The regulators like excess capital, and shareholders like normal returns on their investment so that

creates a difficulty sometimes. One area for growth is agriculture, but the rates for farm credit are unreasonable. The small business climate is looking good and looks like it will continue to pick up. Do we benefit from the lower unemployment rate here in Utah? It has been a little slow, but is increasing somewhat. The rural areas haven't seen that yet.

- Single greatest challenge to your bank?

Low interest rates that have been low for a long time, yet the rumor of an increase holds people back as well. Cybersecurity is also a scary threat. You could say that every one of the recommended regulatory items are a challenge. Balance sheet management. Creative products that can generate fee income, but many of them have compliance concerns that we didn't always consider. Credit unions still come up, but most have relinquished the consumer market to them. We used to rely on the investment portfolio and it isn't there anymore, and as old investments roll off, the options aren't there for new investments.

- New products

Monitoring customer's activities and their customer's activities is hard to do. Vendor management is also very difficult. It takes time and resources that aren't there. Opening accounts online is making it hard to know our customers. Tom also gave out a handout from a community bank national survey. That handout lists some new products that were listed on the survey. Is anyone thinking about the new credit card with the chip? Some banks have them, but there are a lot of restrictions with them. Europe is really effective with them, but in the US they don't work everywhere yet. Customers want the latest and greatest all of the time and they don't want to pay more for it and they are not afraid to use all of the new stuff. Mobile applications and products as well as problems were discussed.

What about branches in the future?

They think that they will be less important and smaller with less people staffing them. The question was asked what is meant by a branch. They will be more electronic, but the mobile device will play into that greatly. Some people will always want that face-to-face contact, but that is not the norm anymore. Are branches an income generator, do they generate loans, etc. That could be a key to branching in the future. Most look at that very closely, especially in the rural areas.

- What areas of your business have been most impacted by new or evolving regulations?

COMPLIANCE! Has anyone here tried to hire a compliance officer? Compliance is getting more complicated and not just anyone can do it well. It is a challenge because it seems that there is more pressure for experience in a big bank. The

costs for experienced compliance officers can be extreme. A problem is that you need new products to attract consumers and yet they can't be plain vanilla products, yet some of the regulators don't look at it that way. There was a discussion of peer-to-peer lending. Banks aren't the innovators anymore. For the small community bank the key is being able to customize our product to our customer, and now we don't have the freedom to do that because of compliance regulations.

- What characteristics are most important for a community bank's executive management and board of directors in today's banking environment?

Adapting to change and keeping your core values. It seems like there is more pressure from regulators to expect the board to more than they did before, more oversight, more approval and more management functions. A bank director needs to understand banking more than was necessary in the past. The on-site board members only have a limited amount of time to spend on bank business and if they are expected to do more management stuff that will take away from the time that they can spend on bank board business. It makes everyone on the board a bank specialist. In the past you wanted a cross section on your board. The pressure to have the right chairman of the board is going to be a bigger challenge. The succession idea is also becoming a bigger issue. Historically there was great training for director's, no one seems to be doing that now.

4. Other business –

Mark Peterson passed out the Performance Trends report. Commissioner Leary also wanted to mention was that he was invited to participate on an Emerging Technology Payments Task Force with CSBS. There are nine commissioners on the task force. They are trying to look at the issues involved with emerging payments. BitCoin is probably the biggest driver of this. They held a hearing last Friday and he appreciated that Lew Goodwin participated on the panel. It was taking the legacy systems and saying how can you make them faster and safer. And the new payment systems and then the third panel was with the virtual currencies. It covered a full range. It will someday be archived on CSBS' website. It was basically asking how do state regulators deal with all of these systems. The challenge is that when regulators step in it slows down technology and things do move very fast. We are struggling with how to be a player in this arena without stopping innovation. Lew mentioned that the States have the first exposure of this and some of the ideas are not so good, but others deserve to try and make it work.

5. Date of next meeting – August 18 11, 2014 – 11:00 am